3.5(c)

WESTERN HEMISPHERE

Argentina: Economic Accomplishments of Military Junta

3.5(c)

The military junta in Argentina under President Jorge Videla chalked up impressive accomplishments in restoring business confidence and international credit in its first nine months.

Since assuming power on March 24, the military government has:

- Arranged for foreign loans of $1.3 billion to meet debt service payments, and rescheduled foreign debts so that future repayment problems can be avoided.
- More than doubled foreign reserves.
- Replaced a $1-billion trade deficit in 1975 with an $800-million surplus last year, as increased sales of grains and meat raised exports while imports declined with the drop in domestic economic activity.
- Devalued the peso by almost 50 percent and eliminated the dual-rate system.
- Lowered the annual rate of inflation from nearly 400 percent in the first half of 1976 to a little more than 100 percent in the second.
- Stimulated agricultural producers to increase crop areas, leading to a record wheat harvest that should boost export earnings in 1977.
- Reduced the government budget deficit as a percentage of gross domestic product in 1976 to about one half the level in 1975 by raising tax collections and curtailing spending.

Although real gross domestic product probably declined about 4 percent for

The Argentine junta (L to R): General Agosti, President Videla, Admiral Massera

A large part of the recent economic readjustment has come at the expense of the working class. Real wages slumped in the second quarter; since then, the government has authorized several wage hikes to hold real wages near the June level. Holding the line on real wages has enabled many enterprises to keep workers on their rolls despite reduced production, thus keeping unemployment at roughly 5.5 percent.

Plans and Projections

The Argentine economic team expects the trade balance to remain strongly positive in 1977 for three reasons: large jected at about 100 percent; private estimates are slightly less optimistic.

The government's economic projections for 1977 call for gross domestic product to grow by 4 percent, led by reviving investment. Some $260 million in development loans has been obtained from international agencies for government construction projects.

Buenos Aires hopes to attract private foreign investment through its recent revisions of restrictive Peronist laws and its settlement of most disputes with foreign enterprises. Industrial output is projected to grow about 5 percent as idle

period.

Terrorist activities, though reduced, continue to hamper the economy, particularly foreign investment. Domestic investment funds are limited even though savings have picked up since March and capital that had moved out of the country seems to be starting to return. Foreign involvement in the petroleum industry is needed if the government's goal of energy self-sufficiency is to be reached.

Buenos Aires will have to reduce further the budget deficit in order to reduce the rate of growth in money supply. The 1977 budget calls for raising revenues by improving tax collection procedures and by basic tax reform.

Expenditures are to be held down by a gradual reduction in government rolls as private employment opportunities improve—a plan that often has proved ineffectual in the past. Projected sharp curtailment in transfers to provincial governments and in subsidies to unprofitable state enterprises also will be difficult to achieve.

Prospects

Assuming that the current leadership remains in power, economic prospects for 1977 are favorable. Private businessmen foresee a substantial improvement in economic activity this year. This confidence, however, could be severely undermined by a change in leadership or policy.

Labor's willingness to accept continued austerity and the suspension of its bargaining rights will be the key factor in determining the success of the economic program this year. So far, the government

Approved for Release: 2018/10/02 C06628277

Approved for Release: 2018/10/02 C06628277

billion to meet debt service payments, and rescheduled foreign debts so that future repayment problems can be avoided.

- More than doubled foreign reserves.
- Replaced a $1-billion trade deficit in 1975 with an $800-million surplus last year, as increased sales of grains and meat raised exports while imports declined with the drop in domestic economic activity.
- Devalued the peso by almost 50 percent and eliminated the dual-rate system.
- Lowered the annual rate of inflation from nearly 400 percent in the first half of 1976 to a little more than 100 percent in the second.
- Stimulated agricultural producers to increase crop areas, leading to a record wheat harvest that should boost export earnings in 1977.
- Reduced the government budget deficit as a percentage of gross domestic product in 1976 to about one half the level in 1975 by raising tax collections and curtailing spending.

Although real gross domestic product probably declined about 4 percent for 1976 as a whole—following a 1.4-percent drop in 1975—production began to pick up in the last quarter. A bumper wheat crop was harvested, truck and tractor sales increased, and petroleum production rose after several years of steady decline.

The Argentine junta (L to R): General Agosti, President Videla, Admiral Massera

A large part of the recent economic readjustment has come at the expense of the working class. Real wages slumped in the second quarter; since then, the government has authorized several wage hikes to hold real wages near the June level. Holding the line on real wages has enabled many enterprises to keep workers on their rolls despite reduced production, thus keeping unemployment at roughly 5.5 percent.

Plans and Projections

The Argentine economic team expects the trade balance to remain strongly positive in 1977 for three reasons: large supplies of grain are available for sale, prospects for meat sales to Western Europe are improving, and industrial exports are rising slowly. The export surplus will be slightly larger than in 1976, even though imports will rise as industrial output revives. Inflation is officially projected at about 100 percent; private estimates are slightly less optimistic.

The government's economic projections for 1977 call for gross domestic product to grow by 4 percent, led by reviving investment. Some $260 million in development loans has been obtained from international agencies for government construction projects.

Buenos Aires hopes to attract private foreign investment through its recent revisions of restrictive Peronist laws and its settlement of most disputes with foreign enterprises. Industrial output is projected to grow about 5 percent as idle capacity is drawn back into production to meet rising demand. Assuming normal weather, agricultural production is likely to grow 5 percent.

The government plans to permit real wages to rise only slightly in 1977; unemployment is projected at or below the current level. The planners intend to ease the present rigid wage restrictions to permit employers to raise wages as productivity climbs.

Problems

Labor so far has accepted the sharp decline in the standard of living and severe restrictions on union activities with only moderate protest. It is now growing more restive. Demonstrations and work stoppages have occurred, even though major unions have been put under government control and strikes are illegal. Leaders of unions not under government control recently prepared a manifesto protesting that labor is bearing more than its share of hardships in the economic recovery needed if the government's goal of energy self-sufficiency is to be reached.

Buenos Aires will have to reduce further the budget deficit in order to reduce the rate of growth in money supply. The 1977 budget calls for raising revenues by improving tax collection procedures and by basic tax reform.

Expenditures are to be held down by a gradual reduction in government rolls as private employment opportunities improve—a plan that often has proved ineffectual in the past. Projected sharp curtailment in transfers to provincial governments and in subsidies to unprofitable state enterprises also will be difficult to achieve.

Prospects

Assuming that the current leadership remains in power, economic prospects for 1977 are favorable. Private businessmen foresee a substantial improvement in economic activity this year. This confidence, however, could be severely undermined by a change in leadership or policy.

Labor's willingness to accept continued austerity and the suspension of its bargaining rights will be the key factor in determining the success of the economic program this year. So far, the government has reacted mildly to isolated infractions of labor restrictions. If labor starts to make concerted demands, however, the regime will face a dilemma.

If the government refuses to grant concessions, it risks a confrontation with labor that could wipe out many of the economic gains made so far. If it makes concessions, the workers will almost certainly increase their demands, and the economic balance will be jeopardized. Such a move, moreover, could trigger a government takeover by military hard-liners.

Even without such a precipitating agent, there could be a shakeup within the military government and a shift to stricter policies. Many in the military fear that the Videla government will permit a revival of labor power such as existed under the Peronist governments. Greater repression, however, could backfire by making labor more susceptible to leftist influence.

Approved for Release: 2018/10/02 C06628277
NR
Approved for Release: 2018/10/02 C06628277
3.5(c)